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STATE OF MONTANA
ABSTRACTERS BOARD OF EXAMINERS
REPORT ON EXAMINATION
Fiscal Year Ended June 30, 1969



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA

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STATE OF MONTANA

ABSTRACTERS BOARD OF EXAMINERS

REPORT ON EXAMINATION

Fiscal Year Ended June 30, 1969



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APPOINTIVE OFFICIALS

ABSTRACTERS BOARD OF EXAMINERS

Board Members

C. J. Herbold, Jr., Chairman	Fort Benton	1970
Oscar Callant, Vice Chairman	Harlowton	1971
F. B. Weed, Secretary	Helena	1972

SUMMARY OF RECOMMENDATIONS

	<u>Page</u>
Establish and maintain currently a general ledger utilizing the double entry system and prepare annual financial statements.	4
Record cash when it is received and deposit it intact on a timely basis.	5
Require payment of all fees prescribed by law.	6
Establish and maintain a permanent record of the bonds required of holders of certificates of authority.	6
Submit claims for disbursement in accordance with established procedures.	8
Process the board secretary's salary on a payroll claim form.	8



STATE OF MONTANA
Office of the Legislative Auditor
STATE CAPITOL
HELENA, MONTANA 59601

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of the Montana state abstracters board of examiners as of June 30, 1969, and the related statements of operations, as set forth in the table of contents in this report, for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The financial statements have been prepared on the cash basis of accounting and do not show financial position or operating results as do statements prepared on the modified accrual basis in accordance with generally accepted accounting principles applicable to governmental units.

The board does not maintain a general ledger nor does it utilize the double entry system of accounting. The accompanying financial statements have been prepared by the combined utilization of the state controller's yearend reports and a detail analysis of the board's transactions.

In our opinion, subject to the exceptions described in the preceding paragraphs, the accompanying financial statements present fairly the financial position of the Montana state abstracters board of examiners as of June 30, 1969, and the results of its operations for the year then ended, in conformity with generally accepted governmental accounting principles applied on a basis consistent with that of the preceding year.

We submit the financial statements listed in the preceding table of contents together with the following comments.

COMMENTS

GENERAL

The abstracters board of examiners was created by chapter 105, Montana statutes of 1931. This act, as subsequently amended and currently codified in Title 66, Chapter 21, R.C.M. 1947, provides for a three-member board to regulate the practice of abstracter in Montana. Board members must be registered abstracters and are appointed by the governor for three-year terms. Board members receive compensation of \$5 per day in addition to ten cents per mile for each mile actually traveled and \$5 per day for expenses while absent from home upon business connected with the board.

Abstracting consists of making and compiling abstracts of title to real estate. The main areas of responsibility of the board are to insure that all abstracters have for their use a set of comprehensive and current abstract books or other indices or records showing all instruments affecting title to real property on file or of record in the office of the county clerk and recorder, and to insure that each abstract or title business has a registered abstracter.

The board's records indicate there are 60 licensed abstracting companies and 150 licensed abstracters in Montana. Examinations for abstracter licenses are conducted twice a year.

The abstracters board of examiners is self-supporting. License fees, examination fees, and other revenues of the board are deposited into the board's account in the earmarked revenue fund from which expenditures are made based upon legislative appropriations.

ACCOUNTING SYSTEM

The board does not maintain a general ledger, utilize the double entry system of accounting, or prepare yearend financial statements.

A general ledger should be maintained and posted on a monthly basis to properly show changes and balances of the board's assets and account balance and the accumulated revenues and expenditures for the year. The general ledger should be posted monthly from books of original entry (cash receipts register, claims register, etc.).

The double entry system should be utilized to keep the accounts in balance, show the dual effect upon each financial transaction, and provide the basis for preparation of accurate and complete financial statements and reconciliations.

Each state agency is required by law (section 59-701, R.C.M. 1947) to submit annual financial statements to the state controller. Financial statements are basic to show the results of each agency's operations and its financial position at yearend. The state controller is presently in the process of establishing the bases for the content, format, and instructions for preparation of the financial statements to be prepared by state agencies in the future.

RECOMMENDATION

We recommend that the board confer with the state controller and that a general ledger be established and posted on a monthly basis utilizing the double entry system and that yearend financial statements be prepared.

CASH PROCEDURES

The board does not record cash when it is received and it has been the practice of the board to hold cash received until all the records relating to an application or other accompanying document are in order before depositing

the cash with the state treasurer. Generally accepted internal control standards provide that cash receipts should be recorded as soon as practicable and receipts should be deposited intact as promptly as possible and on a regularly scheduled basis. We believe this to be particularly important in an agency as small as the board in which it is difficult to establish adequate internal controls.

RECOMMENDATION

We recommend that the board record cash in a chronological record when it is received and that it be deposited intact on a timely basis.

COLLECTION OF FEES

As shown on the board's Statement of Revenue, Exhibit C, no collections were received during the year for the issuance of original certificates of registration. Section 66-2110 provides that "Certificates of registration shall be issued upon the payment of five dollars fee and shall be valid for one year from the date thereof but shall be renewed annually upon a payment of one dollar to the secretary of said board." Two original certificates of registration were issued by the board during the year.

The board informs us that it was their understanding that this fee was only to be collected at the time of the formation of the board in 1931, instead of being applicable to each new applicant and that the \$25 examination fee covered issuance of the original certificate.

We believe that the board should collect the fees as prescribed in the abstracter laws. If the board determines in their opinion that the prescribed fees are not what they should be, we believe the board should seek legislation to have the fees changed.

RECOMMENDATION

We recommend that the board require payment of all fees prescribed by the state abstractor law.

BONDS

Section 66-2113, R.C.M. 1947, provides that each applicant for a certificate of authority must file a \$5,000 bond with the board to cover any damages that might result from an error, deficiency, or mistake in an abstract or certificate of title made or issued by such abstractor. It cannot be determined from the board's records that bonds of the required amount exist for each holder of a certificate of authority.

Most of the abstracting companies in the state were established several years ago and the original bonds were obtained at that time. These older original bonds have not been filed by the board in any systematic manner. For the most part they are filed in boxes along with the original applications and are not readily available for verification. These bonds are renewed annually by the means of a continuation certificate--a copy of which is forwarded to the board each year along with the abstracting companies' applications for renewal of their certificates of authority. Several of the continuation certificates do not indicate the amount of the bond but merely refer to the bond number of the original bond.

In order for the records to show the amount of the bonds in force, the board should either establish a permanent record of the amount of the original bonds or require the bonding companies to indicate the amount on the continuation certificates.

RECOMMENDATION

We recommend that the board establish and maintain a permanent record of the bonds required by section 66-2113, R.C.M. 1947.

CONTROL OVER EXPENDITURES

The board in many instances is by-passing the state's established system for the payment of its obligations. The state's system provides that valid obligations of state agencies will be paid by submission of a vendor's invoice accompanied by a properly approved claim form to the state controller for preparation of a state warrant. Once the claim has been approved and a warrant is written, the warrant is sent to the state auditor's office for signature and mailing to the vendor.

The board has followed the practice for several years of submitting claims that include payment to the board's secretary of cash advances from the board's appropriation. From these advances the secretary makes direct cash disbursements for supplies, postage, telephone cost reimbursements, printing, etc. Vendors' invoices supporting these disbursements are retained by the secretary who also maintains a good record of amounts received, disbursed, and available. The following summary presents the transactions of this cash purchase fund for 1968-69.

Balance, July 1, 1968		\$ 87
Received from the Board's Appropriation	\$ 75	
Secretary's Compensation as Board Member for October 1968 Meeting Incorrectly Deposited to Cash Purchase Fund	<u>10</u>	<u>85</u>
Total Available		172
Disbursements:		
Postage	24	
Printing	<u>119</u>	<u>143</u>
Balance, June 30, 1969		<u>\$ 29</u>

This procedure results in the state controller's records showing expenditures of an incorrect amount as shown by Exhibit D and weakens the internal control over the cash disbursement process.

The state controller's office has established procedures for the authorization, maintenance, and reporting for contingent revolving funds (cash advances from appropriations) where there is sufficient need to make immediate cash disbursements. If it is determined that the abstracters board has such a need, the required change in procedures could be easily accomplished and would establish the needed controls.

RECOMMENDATION

We recommend that the board confer with the state controller and submit claims for disbursement in accordance with established procedures.

PAYROLL

The board's secretary has an authorized salary of \$100 per regular board meeting. This salary is for his duties involved in administering the board's laws, rules, and regulations. This salary is presently paid, supported by a regular claim that includes the secretary's compensation as a board member and other cost reimbursements. Accordingly, the salary payments are not processed as payroll transactions where they would be subjected to the federal reporting, withholding, and employer contribution requirements. All salaries of state employees should be processed as payroll transactions in order to properly account for all personal services cost.

RECOMMENDATION

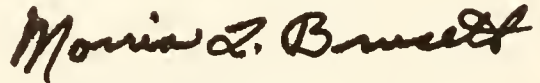
We recommend that the board secretary's salary be processed for payment on a payroll claim form separate from claims for payment of operating expenses.

CONCLUSION

The abstracters board of examiners is one of the smallest state agencies in terms of financial transactions. The secretary of the board is custodian of all records and accordingly the establishment of adequate internal controls and maintenance of adequate accounting records is difficult. However, the implementation of the recommendations contained in this report should result in a basically sound system for the board.

We wish to express our appreciation to the board's secretary with whom we worked for his excellent cooperation.

Respectfully submitted,

A handwritten signature in dark ink, reading "Morris L. Brusett". The signature is written in a cursive style with a large, stylized "M" and "B".

Morris L. Brusett
Legislative Auditor

October 21, 1969

ABSTRACTERS BOARD OF EXAMINERS
ALL FUNDS
BALANCE SHEET
June 30, 1969

	<u>Earmarked Revenue Fund</u>	<u>General Fixed Assets</u>
<u>Assets</u>		
Cash in State Treasury	\$ 1,117	\$ --
Cash on Hand	27	--
Cash Purchase Fund	29	--
Equipment	<u>--</u>	<u>35</u>
Total Assets	<u><u>\$ 1,173</u></u>	<u><u>\$ 35</u></u>
<u>Liabilities, Reserves, and Fund Balance</u>		
Due to Board Secretary	\$ 10	\$ --
Reserve for Investment in General Fixed Assets	--	35
Fund Balance - Exhibit B	<u>1,163</u>	<u>--</u>
Total Liabilities, Reserves, and Fund Balance	<u><u>\$ 1,173</u></u>	<u><u>\$ 35</u></u>

ABSTRACTERS BOARD OF EXAMINERS
EARMARKED REVENUE FUND
STATEMENT OF CHANGES IN FUND BALANCE
Fiscal Year Ended June 30, 1969

Fund Balance, July 1, 1968	\$1,215
Additions:	
Revenue - Exhibit C	<u>582</u>
Total Balance and Additions	1,797
Deductions:	
Expenditures - Exhibit D	<u>634</u>
Fund Balance, June 30, 1969	<u><u>\$1,163</u></u>

ABSTRACTERS BOARD OF EXAMINERS
EARMARKED REVENUE FUND
STATEMENT OF REVENUE
Fiscal Year Ended June 30, 1969

License Fees:

Certificates of Registration:

Original Certificates	\$ -	
Renewals	<u>148</u>	\$ 148

Certificates of Authority:

Application Fees	-	
Renewals	<u>300</u>	300

Examination Fees:

Certificates of Registration		75
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Deposits of Prior Year Collections		<u>59</u>
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Total		<u><u>\$ 582</u></u>
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ABSTRACTERS BOARD OF EXAMINERS
EARMARKED REVENUE FUND
STATEMENT OF EXPENDITURES AND ENCUMBRANCES COMPARED WITH APPROPRIATIONS
Fiscal Year Ended June 30, 1969

OPERATION AND CAPITAL

Carryover Balance from 1967-68	\$ 390
1968-69 Appropriation	<u>870</u>
Total Available	1,260
Expenditures (per State Controller's Records)	<u>566</u>
Balance Reverted	<u><u>\$ 694</u></u>

RECONCILIATION OF ACTUAL EXPENDITURES WITH STATE CONTROLLER'S RECORDS

Expenditures per State Controller's Records	\$ 566
Less Amount Thereof Deposited to Cash Purchase Fund	(75)
Plus Disbursements from Cash Purchase Fund	<u>143</u>
Actual Expenditures	<u><u>\$ 634</u></u>

ANALYSIS OF EXPENDITURES

Personal Services:		
Secretary's Salary	\$ 200	
Board Members Compensation	100	
Employee Benefits	<u>4</u>	
Total Personal Services		\$ 304
Operation:		
Printing	119	
Postage	24	
Travel Expense - Board Meetings	<u>187</u>	
Total Operation		<u>330</u>
Total Expenditures		<u><u>\$ 634</u></u>

ABSTRACTERS BOARD OF EXAMINERS
STATEMENT OF CHANGES IN GENERAL FIXED ASSETS
Fiscal Year Ended June 30, 1969

Equipment - Balance, July 1, 1968	\$ 35
No Changes	<u>-</u>
Equipment - Balance, June 30, 1969	<u>\$ 35</u>

